

Romania: Privatization Opportunity in the Pharmaceutical Industry - SC Antibiotic SA Iasi

1. Summary Data

| | |
|--|--|
| Location: | Iasi, Romania |
| Address: | Valea Lupului Street No.1 6600 Iasi |
| Tel: | ++ 40 32 – 21 10 10 |
| Fax: | ++ 40 32 – 21 10 20 |
| Legal Form | Joint Stock |
| Registered Capital 06.07.2001 | ROL 344.18 billion |
| Percentage offered for sale | 53.02 % |
| Seller | Agency for Privatization and Management of State Ownership |
| Sell-side Adviser | Raiffeisen Investment AG, Central Europe Trust |

STRENGTHS:

- Brand name recognition;
- Product portfolio diversification;
- Proactive management team
- Good operations facilities
- Skilled work force
- GMP for certain departments

OPPORTUNITIES:

- Consolidation of its own position in the domestic market
- Penetration of new markets;
- Introduction of new products;
- Development of its own distribution and sales;
- Significant investment program to be carried on during the next period.

Sales Structure:

- Domestic market share:about 4.8% (2000)
- Domestic / Export84%/16 % (30.06.2001)

Main Products / Conditioning Forms:

| Biosynthesis Products | Semisynthesis Products | Conditioning Types |
|-----------------------------|---|---|
| Nystatin B 12 (solution) | A-6AP Ampicilin Oxacylin Instamixt | Injectables powders Capsules Tablets Unguents Suppositories Internal/external uses solutions Suspensions powders |

Shareholders Structure

| | |
|--|--------|
| Agency for Privatization and Management of State Ownership..... | 53.02% |
| Individuals..... | 23% |
| Financial Investors..... | 25% |

Financial Summary (30.06.2001) – USD million (IAS, unaudited)

| | | | |
|------------------------|-------|---------------------------|------|
| Revenue..... | 16.34 | Total Assets:..... | 37.4 |
| Operating Profit:..... | 3.21 | Capital and reserves..... | 24.5 |
| Net profit:..... | 1.99 | | |

This document is intended for qualified investors only. The information should not be used for final investment decisions. All investors are encouraged to conduct their own due diligence.

2. Background

- ◆ First antibiotics producer in Romania, established in 1955, with first manufacturing capacities for the Penicillin G, V, and Aureocyclin.
- ◆ 1957-1959 a line for the production of ointments and suppositories was commissioned.
- ◆ 1966-1968 commissioning of the technological lines for the production of 6-APA, ampicillin, and oxacillin.
- ◆ 1971-1974 the technological lines for the lysine, tetracycline and oxytetracycline were commissioned.
- ◆ 1990-1999 an upgrade of the technologies especially in the formulation/conditioning sector, as well as the enhancement of the quality standards (GMP certification for certain departments) was carried on.
- ◆ GMP certification for parenteral products (powder antibiotics for injectable solutions and suspensions) and oral products (capsules) (23.12.99).
- ◆ GMP certification for the tablets products 06.12.2000
- ◆ GMP certification underway for unguents and suppositories products.

3. Products / Markets / Sales

The company produces two main categories of products:

- A. Active substances (biosynthesis products, and semi-synthesis and derived products)** which supply the conditioning sector of the company and/or are sold to third parties.
- B. Conditioned products** made with the active substance produced internally and/or outsourced from domestic and foreign suppliers.

Structure of sales by therapeutic category:

| ATC category | Sales (thousand USD) | | |
|--|----------------------|--------|--------|
| | 30.06.2001 | 2000 | 1999 |
| A – Alimentary tract and metabolism | 1,470 | 3,067 | 3,590 |
| C – Cardiovascular system | 552 | 965 | 925 |
| D – Dermatological | 1,097 | 2,089 | 1,869 |
| G – Genito-urinary system and sex hormones | 0 | - | 3 |
| H – Systemic hormonal preparations | 1 | 71 | 72 |
| J – General antiinfectives systemic | 8,234 | 12,388 | 13,542 |
| M – Muskulo-skeletal system | 722 | 1,323 | 1,035 |
| N – Central nervous system | 219 | 353 | 304 |
| P – Parasitology | 38 | 55 | 60 |
| R – Respiratory system | 109 | 397 | 432 |
| S – Sensory organs | 137 | 196 | 131 |
| V – Various | 0 | - | - |
| Total | 12,579 | 20,903 | 21,963 |

Structure of sales by pharmaceutical format

| Pharmaceutical format | Sales | | | | | |
|--------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | 30.06.2001 | | 2000 | | 1999 | |
| | USD thousand | % in total | USD thousand | % in total | USD thousand | % in total |
| Bulk | 2,645 | 16.33% | 5,178 | 18.26% | 3,939 | 14.32% |
| Injectable powders | 6,403 | 39.54% | 10,027 | 35.36% | 10,719 | 38.97% |
| Capsules | 1,502 | 9.28% | 2,347 | 8.28% | 2,127 | 7.73% |
| Tablets | 2,423 | 14.96% | 4,546 | 16.03% | 5,132 | 18.66% |
| Ointments | 2,084 | 12.87% | 3,815 | 13.45% | 3,472 | 12.62% |
| Suppositories | 945 | 5.84% | 1,863 | 6.57% | 1,474 | 5.36% |
| Suspendable powders | 8 | 0.05% | 148 | 0.52% | 204 | 0.74% |
| Solutions | 184 | 1.13% | 434 | 1.53% | 440 | 1.60% |
| Total | 16,195 | 100.00% | 28,359 | 100.00% | 27,506 | 100.00% |

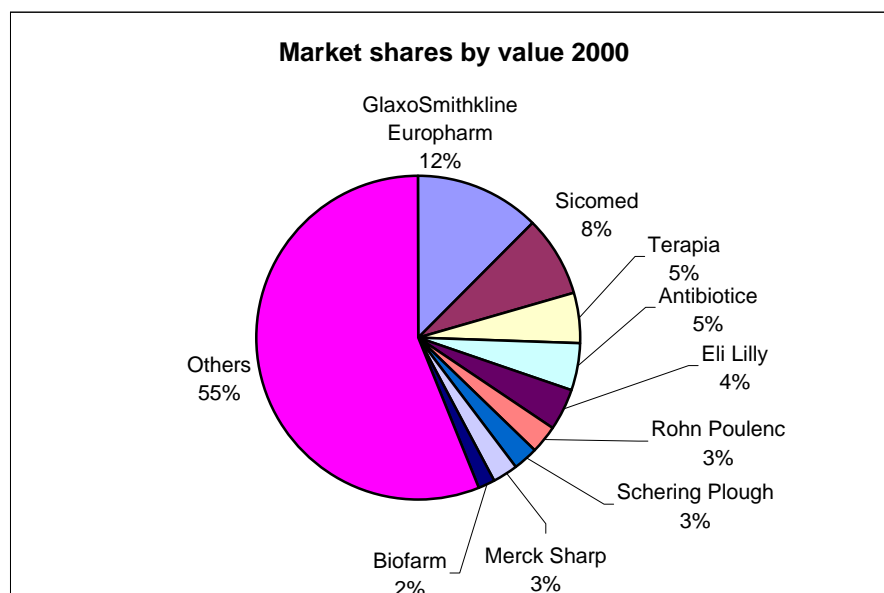
Domestic Market - Overview

- The size and trends of the Romanian pharmaceutical market*

| Consumption Source | 1996 | | 1997 | | 1998 | | 1999 | | 2000 | |
|-----------------------|-------------|-------|-------------|-----|-------------|-----|-------------|-----|-------------|-----|
| | USD mil. | % | USD mil. | % | USD mil. | % | USD mil. | % | USD mil. | % |
| Domestic | 125 | 56.6 | 170 | 51 | 190* | 55 | 152 | 38 | 153 | 35 |
| Import | 96 | 43.4 | 164 | 49 | 177 | 45 | 243 | 62 | 283 | 65 |
| Total | 221 | 100.0 | 334 | 100 | 367 | 100 | 400 | 100 | 436 | 100 |

Source: Ministry of Industries and Commerce and various industry sources

- Market Shares*



The Romanian pharmaceutical market is quite fragmented. The top 4 players make only 30% of the sales.

4. Main Assets / Equipment / Technologies

The company has good technological facilities (buildings, workshops and equipment) for the production of the active substances and for the conditioning sector. An investment program has been carried on in the last years, aiming at the improvement of the biosynthesis and semi-synthesis technologies, as well as at developing the capacities in the conditioning sector.

Some of the most relevant equipment and installations are listed below:

- Line I for raw penicillin GK – 1955;
- Line II for raw penicillin GK - 1968;
- Line for Streptomycin – 1961;
- Line for Nystatin –1974;
- Line for Vitamin B12 feed grade, solution and powder – 1974;
- Lines for intermediary, semi-synthesis and derived products – 1968;
- Lines for oral use powders conditioned in capsules – 1992;
- Lines for injectable powders conditioned in sterilised vials; 1974 – currently GMP;
- Lines for oral used medicines formulated in tablets, herbal tea , suspended powders and other products formulated in bottles: 1974,1992;
- Lines for ointments and suppositories; 1957 – currently GMP;
- Lines for manufacturing of aluminium tubes - 1970,1980.

5. Management

The current management team has recently taken over the company and yet managed to produce consistently good results over recent years. The most important steps that were taken are:

- Organizing the distribution and implementing new market driven strategies;
- Undertaking an ambitious capital investment program;
- Launching new products;
- Targeting new segment markets (both in the domestic and export markets).

6. Personnel

Number of employees

| <i>Personnel Category</i> | <i>Average Personnel</i> | | | |
|---------------------------------|--------------------------|--------------|--------------|-------------------|
| | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>30.06.2001</i> |
| TOTAL Personnel | 2,405 | 2,198 | 1,938 | 1,763 |
| TOTAL Workers out of which | 2,067 | 1,811 | 1,528 | 1,401 |
| - direct workers | 9,60 | 833 | 685 | 610 |
| - indirect workers | 1,107 | 978 | 843 | 791 |
| Administrative Personnel | 338 | 387 | 410 | 362 |

Average monthly salary

| <i>Personnel Category</i> | <i>Average Monthly Gross Salary</i> | | | | | | | |
|---------------------------------|-------------------------------------|-----|--------------|-----|--------------|-----|-------------------|-----|
| | <i>1998</i> | | <i>1999</i> | | <i>2000</i> | | <i>30.06.2001</i> | |
| | Thou. ROL | USD | Thou. ROL | USD | Thou. ROL | USD | Thou. ROL | USD |
| TOTAL Personnel | 1,596 | 180 | 2,296 | 150 | 3,859 | 178 | 5,410 | 196 |
| TOTAL Workers out of which | 1,485 | 167 | 2,016 | 131 | 3,287 | 152 | 4,634 | 168 |
| - direct workers | 1,497 | 169 | 2,038 | 133 | 3,264 | 150 | 4,620 | 167 |
| - indirect workers | 910 | 127 | 1,475 | 166 | 3,357 | 155 | 4,677 | 169 |
| Administrative Personnel | 1,226 | 171 | 2,273 | 256 | 5,974 | 275 | 8,433 | 305 |

7. Financials

Income Statement of SC Antibiotice SA (IAS, unaudited)

| <i>INCOME STATEMENT - IAS</i> | <i>2001 (6 months)</i> | <i>2000</i> |
|---|------------------------|-----------------|
| | <i>mil US\$</i> | <i>mil US\$</i> |
| Revenue | 16,339 | 28,598 |
| • Other operating | 222 | 389 |
| • Change in | 1,541 | (123) |
| Work performed by the enterprise and | 16 | 27 |
| Raw material and consumables used | (7,859) | (12,390) |
| Staff costs | (2,820) | (6,075) |
| Depreciation and amortisation expenses | (850) | (1,735) |
| Other operating expenses | (3,378) | (6,698) |
| Profit from operations | 3,210 | 1,992 |
| Finance cost | (128) | (243) |
| Income from associates | - | 0 |
| Gain or loss from net monetary items | (496) | 193 |
| Profit before tax | 2,585 | 1,942 |
| Income tax expenses | (595) | (544) |
| Profit after tax | 1,991 | 1,399 |
| Minority interest | - | - |
| Net profit or loss from ordinary activities | 1,991 | 1,399 |
| Extraordinary items | - | - |
| Net profit(loss) for the period | 1,991 | 1,399 |
| Profit share to employees | - | - |
| Current result carried forward | 1,991 | 1,399 |

BALANCE SHEET - SC Antibiotice SA (IAS, Unaudited)

| <i>BALANCE SHEET as at (in thou. US\$) -</i> | <i>30-June-01</i> | <i>31-Dec-00</i> |
|---|--------------------------|-------------------------|
| <i>ASSETS</i> | | |
| Non-current assets | | |
| Property, plant and equipment | <u>18,667</u> | <u>18,991</u> |
| Intangible | <u>44</u> | <u>44</u> |
| Other financial assets | <u>2</u> | <u>3</u> |
| | <u>18,714</u> | <u>19,037</u> |
| <i>Current assets</i> | | |
| Inventories | <u>8,514</u> | <u>6,881</u> |
| Trade and other receivables | <u>9,894</u> | <u>8,116</u> |
| Prepayments | <u>57</u> | <u>86</u> |
| Cash and cash equivalents | <u>232</u> | <u>381</u> |
| | <u>18,697</u> | <u>15,463</u> |
| <i>Total Assets</i> | <u>37,410</u> | <u>34,501</u> |
| <i>EQUITY AND LIABILITIES</i> | | |
| Capital and reserves | | |
| Issued capital | 47,524 | 47,524 |
| Reserves | (23,373) | (23,373) |
| Retained earnings | (1,624) | (3,023) |
| Current result carried forward | <u>1,991</u> | <u>1,399</u> |
| | <u>24,517</u> | <u>22,526</u> |
| Non-current liabilities | | |
| Borrowings | <u>509</u> | <u>769</u> |
| | <u>509</u> | <u>769</u> |
| Current liabilities | | |
| Trade and other payable | <u>9,917</u> | <u>8,800</u> |
| Short –term borrowings | <u>2,467</u> | <u>2,405</u> |
| | <u>12,385</u> | <u>11,205</u> |
| Total equity and liabilities | <u>37,410</u> | <u>34,501</u> |

8. Consortium / Contact Officers

- A Consortium led by Raiffeisen Investment AG – Raiffeisen Group, in association with Central Europe Trust Company Ltd., (the “Advisor”), was appointed as exclusive financial advisor to the Romanian State Ownership Fund (the “Seller”) to conduct the privatization of the Company.
- According to the existing timeframe, the Company’s privatization strategy has been approved by the Romanian Government and is planned to start in September. Binding bids for acquiring the 51% or more interest currently owned by the Seller are expected by autumn 2001.
- Any communications or inquiries should be directed to the Consortium. The Company should not be contacted without the prior consent of the Consortium. Consortium Team Leaders:

Paul Tremmel

Project Manager

Raiffeisen Investment AG

Reisnerstrasse 40, A-1030 Wien
Austria

Tel: 0043 1 710 540029

Fax: 0043 1 710 5400 69

Email: p.tremmel@riag.raiffeisen.at

Emilia Nemeth

Senior Manager,

Central Europe Trust Company Ltd.

Marble Arch Tower

55 Bryanston Street

London W1H 7AA England

Tel: +44 207 258 7100

Fax: +44 207 258 7101

E-mail: emilia.nemeth@cet.co.uk